



Budget 101

What and Why should you use a Budget?

A budget is a great tool that can be used to help you manage your spending based on your personal financial situation. It can be done manually on paper (yes, I said paper), using a spreadsheet program like Excel, or by using accounting/budget software. Budgets are not set in stone so once you make one, there is room to adjust or modify as needed. It is a guide to help you with your financial decisions.

The following pages of this budget will give you some insight on what makes up a budget and how to budget. The best thing about a budget for personal finances is there is no wrong answer. Your budget is built around your financial needs and wants. It doesn't mean at times that you won't be going over your budget, but it is a tool that can help guide you.

The first step is to provide you with definitions, so you have an understanding as to what makes up a budget. The second step is to provide you with an example of what a budget could look like. And the third step is to give you the resources to go out and make your own budget.

Please note that when we talk about budgets it's for personal use and not business use. While the premise is the same for a business budget, there are some other terms and items that would need to be considered that you do not need to do for a personal budget.

Budget Definitions

Income- The money you earn whether it's through a job or investing. Income is either gross, net or projected. Your gross income is the money you earn and/or receive prior to taxes being taken. Which makes net income the money you receive after taxes have been taken out. And projected income, in the context of a budget, is what you expect your income to be whether for the week, month or year.

Expense- The money you use to purchase items or pay bills with. There are fixed expenses, variable expenses and fixed variable expenses. Fixed expenses are things like your mortgage or rent where within that year, the amount does not change so it's the same every month. Variable expenses are things like shopping or gas for your car. You have that expense, but not sure what you may spend week to week on those items. And then finally fixed variable expenses are things like your utilities bills where you must pay them monthly, but you don't know the exact amount.

Opportunity Cost- What you lose when you choose something else. For example, if you bought \$100 pair of shorts because you had to have them, what did you potentially lose? Maybe grocery money or money for gas for your car.

BUDGET SCENERIO:

Larry and Samantha are a married couple with two children. They are trying to create a monthly budget to help them with their expenses and to see what they can put away for savings.

Biweekly gross pay for Larry is \$2,000 and for Samantha is \$700. They also receive \$100 in other income on a monthly basis.

Their fixed monthly costs are the following:

Mortgage \$1,500

Car loan payment \$500

Water/Sewer/Trash \$50

Cable /Internet \$135

Phone \$60

College Tuition \$250

Car Insurance \$200

Home Insurance \$80

Their annual variable costs are the following:

Groceries \$6,000

Gas for 2 cars \$4,800

Car repairs \$1,200

Pets \$1,200

Personal Care \$2,400

Doctors, prescriptions \$840

Other expenses \$1,500



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